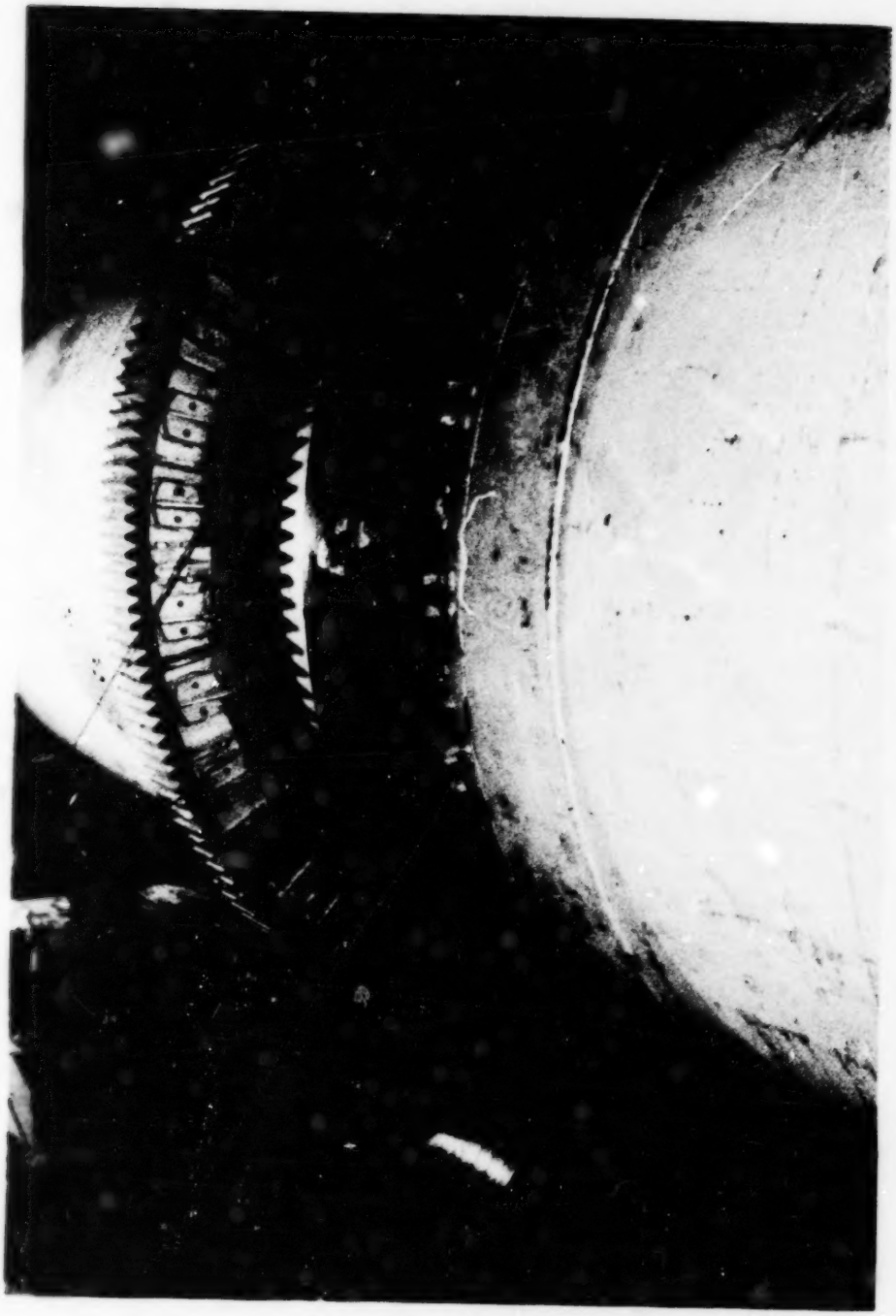
Potash Corporation of Saskatchewan



1983 Annual Report

Letter of Transmittal

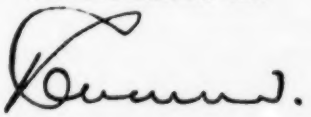
March, 1984

To His Honour,
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Sir:

I have the honour to submit the Annual Report of the Potash Corporation of Saskatchewan for the year ended December 31, 1983, including the financial statements in the form required by the Treasury Board and duly certified in accordance with The Potash Corporation of Saskatchewan Act.

I have the honour to be, Sir,
Your obedient servant



Bob Andrew
Minister-in-Charge of the
Potash Corporation of Saskatchewan

Front Cover: Giant product cooler is part of the equipment installed in the new mill at PCS Mining Lanigan Division

Five Year Review

	1979	1980	1981	1982	1983
Production — KCl Tonnes (000)					
Allan Division	660	598	731	478	373
Cory Division	922	981	911	542	599
Esterhazy Division	807	974	905	715	718
Rocanville Division	1,002	1,110	992	822	887
Lanigan Division	585	816	832	309	529
Total PCS Mining	3,976	4,479	4,371	2,866	3,106
Total Canadian Producers	10,008	11,968	11,762	8,538	9,719
Sales — KCl Tonnes (000)					
North American	2,747	2,448	2,115	1,481	2,193
Offshore	1,449	1,959	1,765	1,168	1,399
Total PCS Sales	4,196	4,407	3,880	2,649	3,592
Total Canadian Producers	11,731	11,657	10,388	8,256	10,795
Financial ($000)					
Gross Revenue	275,462	408,828	391,748	192,127	217,702
Provincial Taxes, Royalties & Resource Payments	58,280	89,540	70,770	15,020	12,610
Interest Expense	13,599	7,424	3,669	6,074	16,301
Other Costs & Expenses	125,619	144,415	175,588	170,426	206,798
Net Income (Loss)	77,964	167,449	141,721	607	(18,007)
Dividends	—	50,000	50,000	30,000	62,000
Capital Expenditures	34,645	97,026	194,756	140,454	108,730
Cash Flow from Operations	98,593	181,728	137,273	7,852	81,079
Working Capital	121,214	116,521	9,897	(26,854)	(41,248)
Long-Term Debt	157,000	108,400	88,025	221,787	372,980
Equity	522,903	640,352	732,073	682,680	602,673
Return on Equity	14.90%	26.10%	19.40%	0.09%	(2.99%)
Other					
Employees at year end	1,707	1,944	2,267	2,191	1,826
Gross Payroll & Benefits ($000)	38,310	47,210	62,620	64,660	59,780

Chairman's Message

I was very pleased to be appointed Chairman of PCS in November, 1983. When I joined the potash industry, PCS had been tested by the worst economic conditions since the 1930's. I am pleased to be associated with a company which has been able to respond so positively to this very challenging environment.

PCS is a relatively young company, incorporated only eight years ago. Nonetheless, building upon the strengths of the predecessor companies that operated its properties and the merits of its own accomplishments, it has established an enviable reputation. PCS has been accepted by its customers, competitors, employees, owners and suppliers as a solid, successful member of the fertilizer industry.

To maintain and improve upon the reputation and status we have attained, we will have to build on these values. We intend to consolidate the foundation that has been established and develop it in a creative manner.

This annual report presents the major activities carried out by PCS through 1983. From these activities I would like to mention those decisions in which the Board of Directors took particular interest and devoted more time to analyze and discuss.

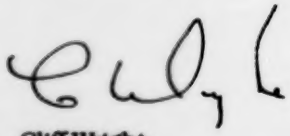
During the past year we have reviewed the corporate objectives. These have been modified to reflect the changing demands placed upon the Corporation, and are included elsewhere in this report. The difficult economic circumstances faced by PCS have focussed the Corporation's attention on productivity and effectiveness. The weak market has lead to the search for new strategies in marketing, production, and technical development. Our employees now, more than ever, need to understand the challenge that faces the Corporation and respond in a unified way to make PCS an even stronger company in the years ahead.

The optimism with which the Board of Directors and the Provincial Government view PCS is reflected in the decision announced shortly after year end that the Corporation would move into new headquarters in 1985. While this decision was based primarily on economic reasons, the fact that it involves a twenty year commitment indicates the confident way in which the future of the Corporation is seen.

We have continued the Audit Committee of the Board and established a Compensation Committee. In 1984 it is our intention to complete appointments to the Executive Committee.

I would like to recognize the contribution made to the Corporation by the Honourable Lorne McLaren and the Honourable Bob Andrew, both of whom carried the responsibility of Chairman prior to my appointment. Mr. McLaren was Chairman during 1982 and early 1983 when the economic downturn made a number of very difficult decisions necessary. Mr. Andrew served for a shorter period during 1983 but provided very important guidance during what we hope was the beginning of a recovery. I would also like to acknowledge the service provided by Board members the Honourable Gary Lane and Mr. Harold Lane. Mr. Gary Lane, like Mr. McLaren, left our Board as a result of reassignments of responsibility of Cabinet Ministers in the Government of Saskatchewan. Harold Lane resigned during 1983 to take up a position as Board member on the Crown Management Board.

On behalf of the Board of Directors, I would like to thank all employees for their very positive contribution during a difficult year. I am looking forward to expanding our relationship as we move forward to a return to profitability.



Cliff Wright
Chairman of the Board

Potash is moved from storage facilities at the mines/ties to supply customers in North American and Offshore markets.

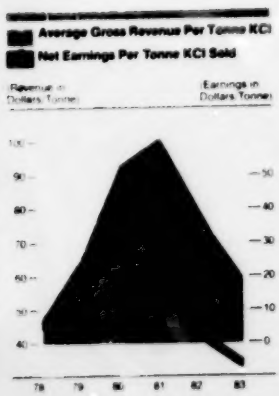
President's Message

In 1983, PCS incurred a net loss of $18 million. This compares with a net income of $607,000 in 1982.

This performance, the worst in the company's history, resulted from difficult conditions in the global economy generally, and the agricultural sector specifically. Economic conditions created difficulty for our customers and threatened the very financial foundations of a number of potash buying nations.

North American consumption, representing some 61 percent of our sales, fared badly during the fertilizer year ending June 1983. U.S. Government programs designed to decrease grain inventories through the reduction of planted acreage, combined with a wet spring and summer drought sharply reduced potash application. U.S. consumption for the fertilizer year 1982-83 was down by 14 percent from the previous year and by 23 percent from the peak year of 1980-81. Other suppliers were able to capitalize on U.S. freight deregulation and low levels of ocean freight so that Saskatchewan producers lost market share.

Offshore, the same array of economic factors and financing problems in some markets produced a very difficult environment for Canpotex, the Saskatchewan producer-owned marketing company, to operate in. Product oversupply combined with a preference for countertrade in markets such as Brazil and Indonesia complicated negotiations and lowered prices.



The primary reason for the Corporation's poor financial performance in 1983 was price. Prices in 1983 declined by about 15 percent from the previous year, down to the lowest levels since 1975.

A major cost reduction program was planned in 1982 and implemented in early 1983. Lower priority programs were dropped in order to allow funding of activities necessary to increase the efficiency of the Corporation. Production was cut to reduce inventories and eliminate intermittent shut-

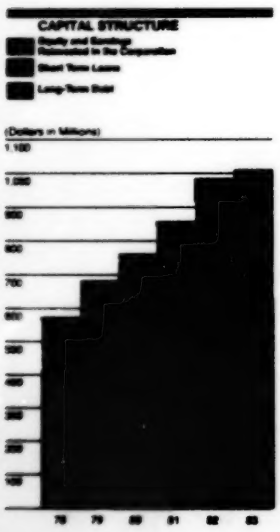
Much of the construction material and equipment for the Lanigan Phase II Expansion Project is purchased in Saskatchewan and provides an important stimulus to the local economy.

downs. Unfortunately, many of these decisions resulted in reductions of employees at the corporate offices and the operations.

On the positive side, I am very pleased with the way our employees have responded to the reorganization, the control of costs, and the challenge of the economic environment around us. We cannot build a strong company without dedicated employees. The successes, particularly in cost control during the past year, confirm that we have an excellent, well trained workforce capable of meeting all challenges.

While 1983 was a year in which we were preoccupied with concerns about revenues and costs, I should draw attention to a number of major developments in the Corporation.

In 1983 PCS reconsidered its position with respect to membership in Canpotex. After a thorough review of objectives with the other members of Canpotex, PCS concluded that Canpotex could make the necessary changes to be truly representative of the needs of all its shareholders. Most importantly, the goals of PCS for expanding the offshore market could be met by working within the organization.



The decision to continue offshore marketing through Canpotex also provided an opportunity for realignment of the PCS corporate structure. PCS Transport and PCS International which had been established in anticipation of the venture into the offshore market, were disbanded. The activities of PCS Transport were combined with PCS Sales, and Rolf Holzkaemper, who had been responsible for PCS Transport was named President, while Douglas Logsdail who had headed PCS Sales was named Executive Vice President.

During the past year we continued to invest in research and development in accordance with a previously established guideline of about 1.5 percent of sales. We continue to hold the view that our future is dependent upon high productivity attained through continuous improvements in mining and process technology, the stimulation of demand through agronomic research and the development of related products to diversify the company. With respect to new products, the Corporation announced plans to construct a demonstration scale facility for the production of potassium sulphate. Should this project prove successful further expansions would follow.

While the financial results of the Corporation were disappointing, there are grounds for optimism. The results of the cost control program indicate that the Corporation can keep unit operating costs at levels much lower than anticipated when the program began. We demonstrated that selling and administrative expenses can be reduced while, at the same time, services improved. Finally, we demonstrated that the Corporation can survive very severe downturns in prices and volumes. Notwithstanding the overall loss for the year, the Corporation generated a positive cash flow from operations. This, together with net borrowing of $83 million, which included $38 million from the sale and leaseback of mining equipment at extremely advantageous rates, were reinvested in the Lanigan expansion and used to pay a dividend to the Province.

During the latter part of 1983 we saw the beginning of what is hoped to be a recovery. As previously mentioned, the reduction in feedgrain stocks in the United States was far greater than anticipated and should lead to a recovery in fertilizer demand. There was also some improvement in demand in major offshore markets with heavy shipments in the second half of the year. Monthly shipments by Canpotex in August set a record high. While production increased by only 8 percent over 1982 due to cutbacks early in the year, total sales tonnage increased by 35 percent. Domestic sales and offshore sales were up 48 percent and 19 percent respectively. The programs put in place to increase the Corporation's share of the domes-

tic market have had a positive impact. Share of the North American market recovered from 26 percent to 30 percent. Unfortunately this volume increase was not accompanied by a price improvement large enough to allow a positive net income. Had 1983 prices attained average 1982 levels the Corporation would have shown a net income of approximately $20 million.

At year end 1983 there was room for cautious optimism. Barring bad weather in the spring of 1984 it was hoped that recovery would be sustained through 1984. With this in mind PCS Mining placed the Rocanville Division on full operation in November and recalled most of the employees laid off at this site. While we were encouraged by these events we recognized that problems in any major markets could slow the recovery. New porduction in Jordan, New Brunswick, Israel and the U.S.S.R. could create oversupply difficulties.

Continued expenditures on our major expansion at Lanigan confirm a positive view about the long term outlook for Saskatchewan potash in world markets. Forecasts for world growth in demand for potash, both by PCS and other world sources, such as the FAO/UNIDO World Bank Working Group on Fertilizers, indicate that consumption will likely continue to grow at nearly 4% annually. The Lanigan project will add almost 2 million tonnes to capacity when it comes on stream in 1986. By then we believe much of the present surplus capacity will be absorbed. In terms of production cost, this modern facility will compete effectively with any supply source in the world.

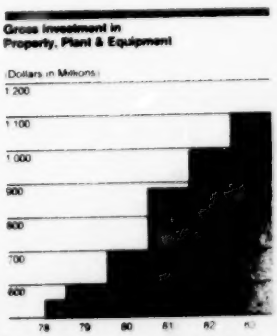
In 1983 the Corporation spent $65 million directly on equipment and construction at the Lanigan project. The Corporation is able to take advantage of the recession to optimize its construction costs. It is worth mentioning that during the past year, this project was a major employer in the Province, peaking with 460 on-site jobs. Much of the construction material and equipment is purchased in Saskatchewan and provides an important stimulus to the local economy. The Corporation's economic development activities have resulted in a substantial increase in Saskatchewan content in capital projects without utilizing either preferential or restrictive tendering practices. Since the inception of the Lanigan project, purchases through Saskatchewan sources have grown to approximately 70% of the project total, infusing $190 million into the Saskatchewan economy. In addition to this direct impact, the provincial economy was stimulated by resultant secondary activities. At the same time that construction activity was taking place, in 1983 the four divisions operated by PCS Mining purchased approximately 80% of their goods and services, or $28.5 million from companies in Saskatchewan. PCS is dedicated to developing and supporting, where practical, a base of competitive local suppliers.

During 1984 we will spend about $57 million on the Lanigan expansion, explore new opportunities for improving our sales, continue our cost control program and carry on with our research and development efforts. We are confident that our fundamental activity of fertilizer production is a good business and we believe we are in an excellent position to supply additional product as it is required.

We have substantial reserves, modern efficient plants, an excellent group of employees, and sound suppliers. Our customers can continue to be assured of a secure and reliable supply of top quality product at competitive prices.

I should like to express thanks on behalf of all employees for the guidance and assistance provided to the Corporation by the Board of Directors in an extremely difficult year.

Steve W. Harapiak,
President & Chief Executive Officer

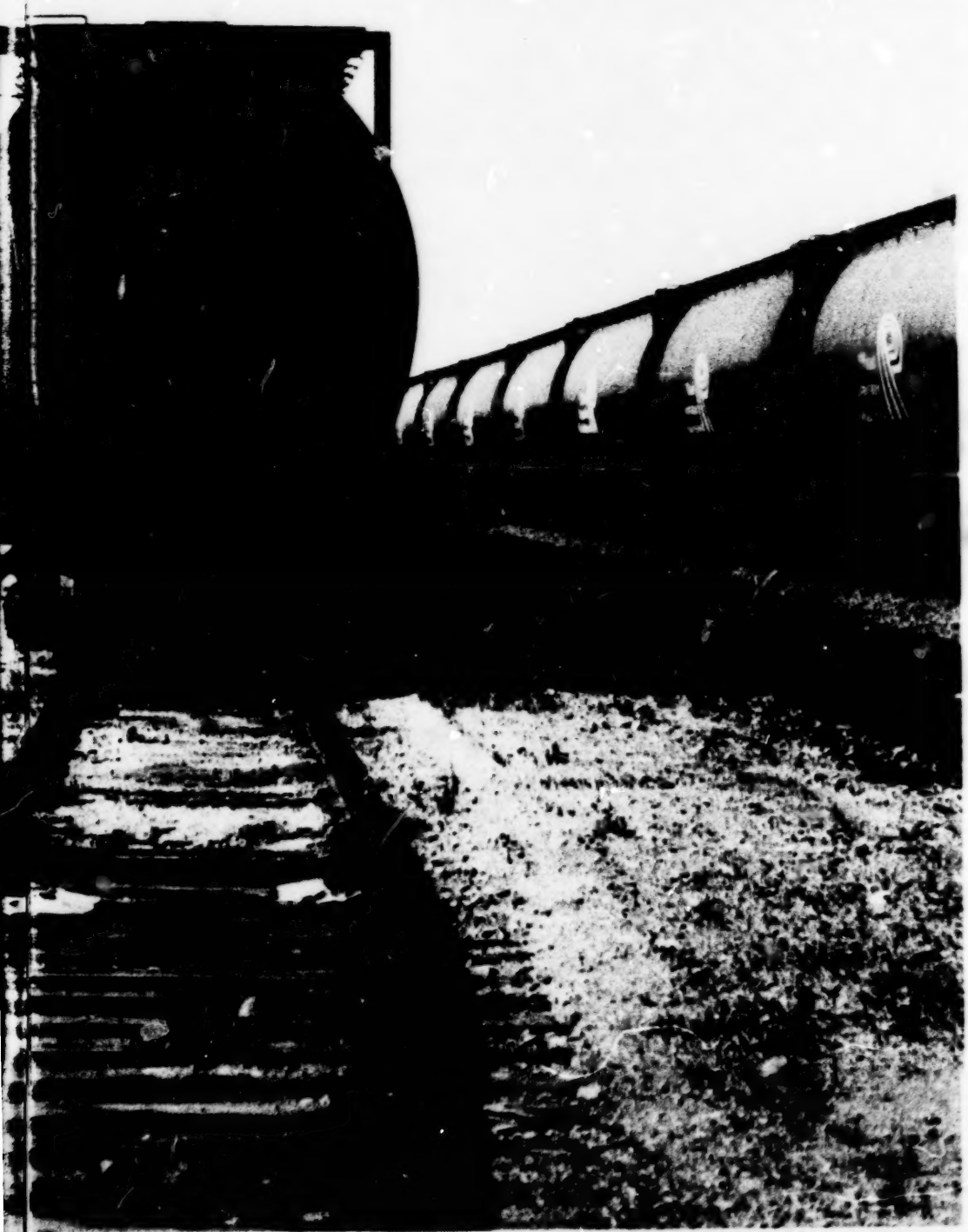


The Corporation

The Potash Corporation of Saskatchewan was established in 1975 and operates through its wholly-owned subsidiaries, PCS Mining and PCS Sales. It has the largest production capacity of any producer of potash in the Western World. The Head Office is located in Saskatoon, Saskatchewan.

The corporate objectives are to:

- continue to be a competitive, reliable supplier with emphasis on quality and distribution.
- increase sales and revenues.
- develop new markets for potash and potash related products.
- increase production capacity over time to meet the needs of new markets.
- maintain technological excellence to minimize costs in the winning of resources.
- apply effective Human Resources Management practices and promote superior performance by employees.
- encourage effective communication to achieve a good level of understanding, co-ordination and co-operation between the Corporation and its employees, customers, suppliers, government and the public.



Solid trains play an important role in the transportation and distribution of potash throughout major market areas.

Potash Corporation of Saskatchewan Mining Limited

During 1983, production was reduced at all operating divisions to match demand. The four divisions operated by PCS Mining (Allan, Cory, Lanigan and Rocanville) were down entirely during January and February, then maintained at 75% production levels beginning in March. Rocanville went to full production in late November responding to market improvements. Total production from the 5 divisions was 3.10 million tonnes of muriate of potash (KCl). Occupational health and safety continued to be stressed at all operations resulting in a reduction of 40% in lost time injuries over 1982. PCS Mining employed 1685 people, including 140 employees at its central office in Saskatoon, of whom 30 are devoted to Research and Development.

ALLAN DIVISION

Allan produced 0.75 million tonnes of KCl during 1983 and employed 408 people. The division is operated by PCS Mining who own 60% in a co-tenancy agreement with Kidd Creek Potash Company. Under this Agreement PCS Mining's share of the production in 1983 was 0.37 million tonnes of KCl.

For the second time since 1978 Allan won the Provincial Mines' Rescue Competition. This was Allan's 5th championship, a truly remarkable accomplishment.

CORY DIVISION

Productivity increased significantly during 1983 due to improvements in the surface raw ore storage facility, ensuring a more continuous feed to the mill.

Development continued in a second ore zone below the present mining horizon with satisfactory results. This provided more stable ground conditions and better shops and warehouse facilities.

Cory produced 0.60 million tonnes of KCl and employed 346 people. The production level for 1983 was outstanding when the days actually operated are taken into consideration.

LANIGAN DIVISION

Lanigan produced 0.53 million tonnes of KCl and employed 384 people, including 57 working underground on the Phase II expansion.

Mine development required to meet the revised Phase II expansion completion date was continued during the year. Progress on several major projects relating to the expansion was made. Two Marietta 780AW4, 4-rotor borers were assembled and work continued on the hoist conversion in the production shaft. The new surface power distribution system required for the expansion was connected. All underground Phase II activities were carried out with PCS Mining Lanigan Division crews.

During 1983 the assembly of the Orebiter, a prototype mining machine, was completed and production testing was started.

ROCANVILLE DIVISION

In 1983 Rocanville produced 0.89 million tonnes of KCl. In late November, market requirements necessitated the addition of a fourth crew, bringing the operation up to full capacity.

The completion of the Truck Loading Facility improved product loading significantly.

The 1983 safety record was a highlight for Rocanville, completing the year without a compensable injury to the 404 employees.

ESTERHAZY DIVISION

During 1983, under a long term processing agreement, International Minerals & Chemical Corporation (Canada) Limited produced 0.72 million tonnes of KCl products from PCS Mining ore reserves.

There is a staff of three PCS Mining employees at Esterhazy to handle order processing, shipment and maintenance of product inventory.

PCS Mining divisions produced 3.10 million tonnes of muriate of potash (KCl) during 1983.

Personnel and Industrial Relations

The Personnel and Industrial Relations Department is staffed by 13 employees. It provides human resource programming and consultation services to PCS and its subsidiaries. These services include policy, recruitment, training and development, compensation and benefits administration, and employee relations. In addition it coordinates the personnel function at the mining Divisions, and provides support services in the area of industrial relations, safety and training. An outplacement service to assist employees affected by staff reduction was established and operated until mid-year.

New collective agreements were negotiated at the Lanigan and Rocanville Divisions. At year end, bargaining was still in progress at Cory and Allan.

A long range affirmative action plan is being developed for the Saskatoon offices of PCS and its subsidiaries.

Engineering Department

In 1983 the design engineering section (22 engineers and technologists) concentrated on the design of the potassium sulphate demonstration plant, the Rocanville waste disposal project and the Lanigan Phase II electrical and instrumentation design. Design support in structural, process, and mechanical areas was provided to the Divisions.

The in-house consulting and operating services sections (staff of 30) provided technical assistance in environmental matters, rock mechanics, geology, small project management and in industrial, process, maintenance, and mining engineering.

Secondary dust collection installation to meet emission standards was completed at Cory and Allan divisions. A new truck loading facility was installed in Rocanville.

Research and Development

The R&D Group (26 engineers and technologists) concentrates on evaluating and implementing new potash technology and developing processes for new products. Major projects in 1983 included the installation of a pilot scale flotation circuit to permit experimentation with new flotation reagents, circuit configurations and instrumentation.

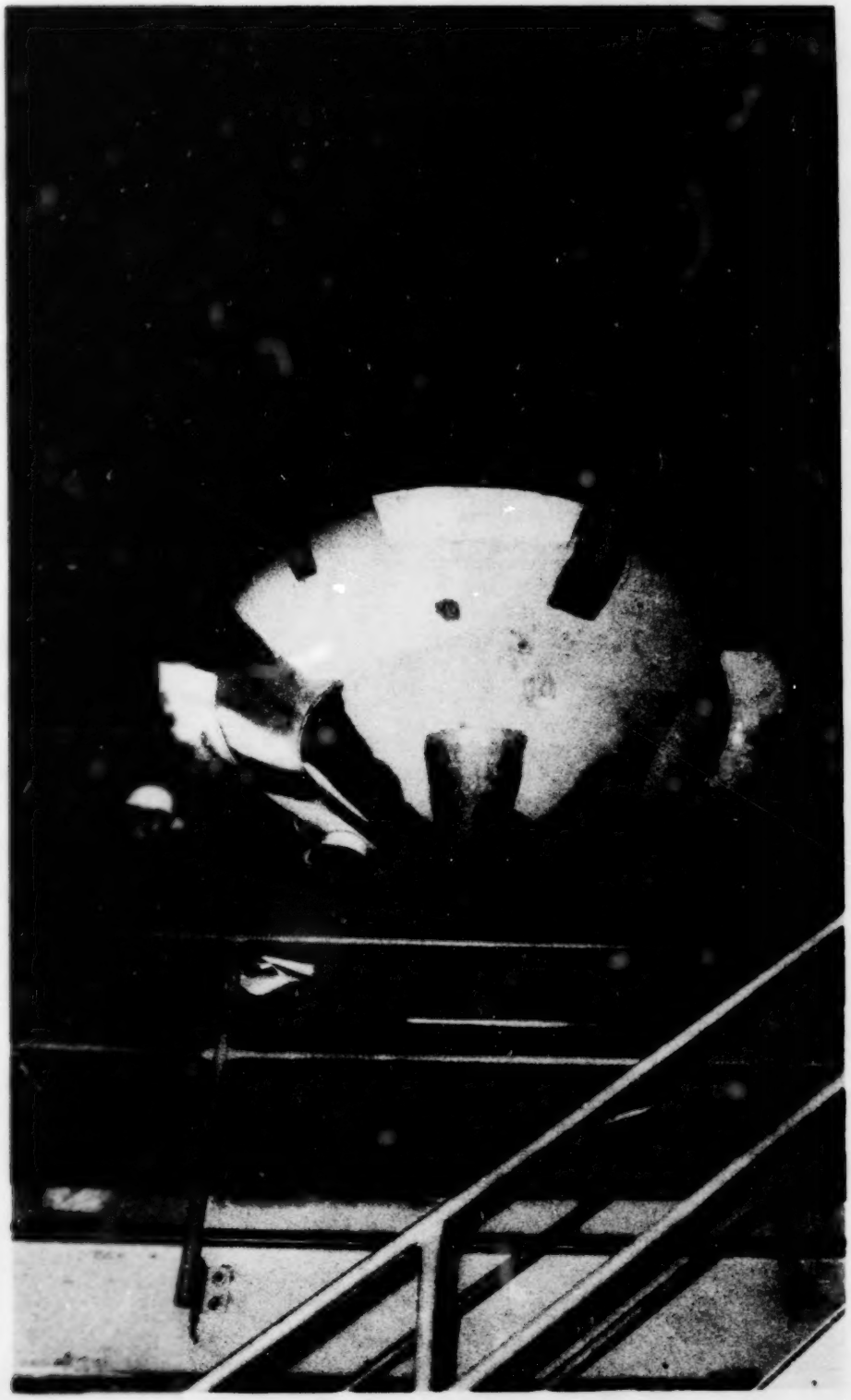
A major area of concentration in mining technology was, "Total Extraction Mining", a new mining method. This continued in several areas including completion of conceptual design for the underground conveyor system.

Projects Department

The Lanigan Phase II Expansion Project reached 63% completion by year end. By December there were 460 contractors' employees on site and 30 on the PCS Mining Project staff. The mill building was closed in and heated by year end. Power supply was converted to 138,000 volt feed. The mine air heating and ventilation system was enlarged to 440,000 cfm.

The Rocanville Dry Stacking of Tailings project was re-evaluated resulting in major revisions to the concept and a substantial reduction in the total probable cost. Design engineering was approximately 70% complete at year end. The settling ponds and associated earthwork have been completed.

The Sulphate of Potash project reached the conceptual design stage.



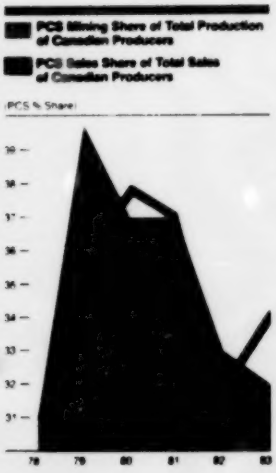
Fines bin in the loadout area of the new mill at Lavington Division.

Potash Corporation of Saskatchewan Sales Limited

1983 was a year of uncertainty, consolidation and challenge for PCS Sales.

Potash shipments in North America during the fertilizer year 1982/83 were at their lowest level since the corresponding period in 1975/76. In the early months of 1983, the Payment in Kind (PIK) Program resulted in a major reduction in acres of crops placed in production, thus weakening the demand for potash as well as other farm inputs. This reduction in major crops was further impacted by the effects of poor planting weather in the spring and extended drought conditions that prevailed last summer throughout the major growing areas of the south and midwest areas of the U.S. The combined effect of the weather and the PIK Program resulted in a significant reduction in yield and a major drawdown in feed grain inventories. However, it also resulted in some strengthening in major farm commodity prices and improvement in net farm income.

The drawdown of corn and soybean stocks, together with the improvement in farm income, led to a significant increase in 1984 planting projections and subsequently an improved demand for potash in the latter part of 1983 as farmers resumed buying and dealers endeavoured to replenish low inventories. The renewed demand had not had a major impact on prices by year-end. It is expected that strengthening of demand and prices will continue into 1984.



Offshore, potash demand and sales improved considerably over 1982 and Canpotex increased its sales by 720,000 tonnes to 3.3 million tonnes. A slow but steady improvement in offshore potash demand is expected, unless major setbacks result from the uncertain and difficult financial situation facing a number of offshore markets.

1983 was a year of challenges — challenges to adopt strategies in a rapidly changing market, in maximizing the advantages of our distribution systems, and in establishing market support programs.

The Port Stanley potash terminal meets the demand for potash in South western Ontario.

To strengthen the marketing program in the important American market, PCS Sales relocated its U.S. field sales office to Chicago, Ill. in January 1983. The PCS Sales marketing strategy is based on providing a quality product delivered to customers in an efficient and timely manner. Product quality remains a priority, and to this effect the Technical Services Department works closely with PCS Mining and our customers to ensure that this objective is met.

The efficient movement of potash from the mines to customers is the responsiblity of our transportation and distribution department (formerly PCS Transport). In 1983, 2.2 million tonnes of potash were shipped to North American customers and 1.4 million tonnes were delivered to Canpotex for sale to offshore markets. The distribution system was dominated by solid trains, moving product to Potash Distribution Centers throughout the major market areas, to Thunder Bay for transfer to vessels for delivery to terminals on the Great Lakes, and to transfer points on the U.S. inland waterway system.

During 1983, construction commenced on a fifth water terminal. This is at Côte Ste. Catherine, Quebec on the South shore of the St. Lawrence River across from the island of Montreal. The success of the Potash Terminals and the Potash Center system was demonstrated in August of 1983 when almost a quarter of a million tonnes were shipped from warehouses. Clearly, in-market storage demonstrates our capability to deliver in a timely manner.

To bolster its marketing strategies, PCS Sales has the support of its market research, communications and agronomic staff, who continue to provide the necessary data, information and research programs which guide and evaluate sales efforts. In the scientific field, PCS Sales' activities supplement and complement the activities of the Potash and Phosphate Institute. PCS Sales was supportive of a major agronomic initiative in 1983 through the implementation of a 5-year Saskatchewan — China Co-operative Potash Agronomy Program. The program is a joint government-industry approach, in which both levels of government are involved; it is designed to quantify the effects of potash applicaton on crop quality and to establish maximum yield programs based on potash application.

At year end, PCS Sales had a staff of 96. Of these, 70 were located at the Saskatoon Head Office.

The Saskatoon based functions include: Sales Management and Market Support, Transportation and Distribution, Order Processing and Invoicing, Finance & Credit.

Sales to large volume accounts in the United States and Canada are handled directly from the Saskatoon office, as are accounts in Western Canada. A District Manager for Eastern Canada is located in the Toronto area.

The company operates a U.S. branch office in Chicago. The U.S. based District Managers report through that office. There are also warehouse operating personnel at two wholly-owned Potash Centers at Fort Dodge, Iowa and Burns Harbor, Indiana.

In summary, 1983 was a difficult year in terms of low sales volume and depressed prices. Because of these difficulties, or perhaps in spite of them, PCS Sales has been able to reinforce its foundations for the future.

PCSS funds research projects to demonstrate potassium response in crops.

Financial Reporting Responsibility

The accompanying financial statements of Potash Corporation of Saskatchewan have been prepared by management, which is responsible for their integrity, objectivity and reliability. They are prepared in accordance with generally accepted accounting principles as determined by the Canadian Institute of Chartered Accountants. The financial statements necessarily include some amounts that are based on the estimates and judgments of management with appropriate consideration to materiality. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Corporation's accounting system and related internal controls are designed to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Corporation's Board of Directors, acting through the Audit Committee comprised of directors who are not officers or employees of the Corporation, oversees management's responsibilities for the financial reporting and internal control systems.

The Director of Internal Audit, who has full and free access to the Audit Committee, conducts an extensive program of audits in coordination with the Corporation's external auditors.

Deloitte Haskins and Sells, the external auditors, have examined the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they considered necessary in the circumstances in order to express the opinion in their report. They have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom such as comments they may have on the fairness of financial reporting and the adequacy of internal controls.

Auditors' Report

To the Members of the
Legislative Assembly of the Province of Saskatchewan

We have examined the consolidated statement of financial position of Potash Corporation of Saskatchewan as at December 31, 1983 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins + Sells

Saskatoon, Canada
February 3, 1984

Chartered Accountants

Consolidated Statement of Financial Position as at December 31

Assets

	(Thousands) 1983	1982
Current Assets		
Short-term investments, at cost	$ 38,924	$ 554
Accounts receivable	49,648	45,909
Due from the Province of Saskatchewan	3,939	23,377
Product inventory	18,781	44,561
Raw ore inventory	3,223	3,223
Materials and supplies inventory	19,752	20,478
Deposits and prepayments	10,382	19,739
	144,649	157,841
Property, plant and equipment (Note 4)	989,667	907,062
Deferred charges and investment (Note 5)	27,234	24,259
	$1,161,550	$1,089,162

Liabilities

Current Liabilities		
Bank indebtedness	$ 29,736	$ 34,724
Province of Saskatchewan advances	—	30,000
Accounts payable and accrued charges	63,140	44,971
Current portion of long-term debt	30,000	25,000
Current obligations under capital leases	1,021	—
Dividend payable	62,000	50,000
	185,897	184,695
Long-term debt (Note 6)	336,001	221,787
Obligations under capital leases (Note 7)	36,979	—
	558,877	406,482
Equity		
Saskatchewan Heritage Fund	418,554	418,554
Retained earnings	184,119	264,126
	602,673	682,680
	$1,161,550	$1,089,162

Consolidated Statement of Income and Retained Earnings
For the Years Ended December 31

	(Thousands) 1983	1982
Income		
Sales	$215,737	$188,117
Interest and other	1,965	4,010
	217,702	192,127
Costs and expenses		
Operating costs other than those shown below	147,721	113,729
Depreciation and amortization	34,076	22,256
Selling, distribution and administrative	37,611	49,461
Interest expense (Note 8)	16,301	6,074
	235,709	191,520
Net income (loss)	(18,007)	607
Retained earnings, beginning of year	264,126	313,519
	246,119	314,126
Dividend (Note 9)	62,000	50,000
Retained earnings, end of year	$184,119	$264,126

Consolidated Statement of Changes in Financial Position
For the Years Ended December 31

	(Thousands) 1983	1982
Sources of cash		
Net income (loss)	$(18,007)	$ 607
Add expenses not requiring cash outlays — depreciation and amortization	28,334	24,100
	10,327	24,707
Decrease (increase) in		
— accounts receivable	15,699	25,359
— inventories	26,506	(23,435)
— other current assets	9,357	(6,803)
Increase (decrease) in		
— accounts payable	18,169	(11,976)
— other current liabilities	1,021	—
Cash generated internally	81,079	7,852
Increase in long-term debt	181,193	158,762
Total sources of cash	262,272	166,614
Application of cash		
Capital expenditures (net)	108,730	140,454
Repayment of long-term debt	25,000	25,000
Dividends paid	50,000	50,000
Additions to deferred charges	5,184	4,766
	188,914	220,220
Net decrease (increase) in short term borrowing	$ 73,358	$(53,606)

Notes to Consolidated Financial Statements
December 31, 1983

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles. The following policies are considered to be significant:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and the wholly owned subsidiaries:

- Potash Corporation of Saskatchewan Sales Limited (PCS Sales)
  - PCS Sales (Iowa) Inc.
  - PCS Sales (Indiana) Inc.
- Potash Corporation of Saskatchewan Mining Limited (PCS Mining)
- Potash Corporation of Saskatchewan Transport Limited (PCS Transport)

PCS Transport has 64% interest in Canpotex Bulk Terminals Limited which is accounted for by the equity method.

Inventories

Inventories of product and raw ore are valued at the lower of average cost or net realizable value. Inventory of materials and supplies is valued at the lower of average cost or replacement cost.

Property, plant and equipment

Property, plant and equipment are carried at cost. Costs of additions, betterments and renewals are capitalized. Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred. Interest associated with major capital projects is capitalized during the construction period at the Corporation's average cost of long-term debt, and is included in the total cost of the project.

Depreciation and amortization

Depreciation and amortization are provided on a basis and at rates calculated to amortize the cost of the property, plant and equipment over their estimated useful lives, as set out below:

	Depreciation or Amortization Basis	Approximate Rate
Head Office		
Furniture and equipment	Straight-line	10%
Automotive equipment	Straight-line	20%
Leasehold improvements	Straight-line	Term of lease plus renewals
Mines		
All mine assets	Units of production	
Offsite Storage Facilities		
Buildings	Straight-line	4%
Equipment	Straight-line	8%
Roads and sites	Straight-line	4%

Research and development costs

Research costs are charged to expense as incurred.
Development costs are capitalized until a project is determined not to be technically feasible and no future benefit to the Corporation exists, at which time the costs are expensed. Development costs which are capitalized are included in Deferred Charges and will be amortized over the estimated useful life of the project to which they relate.

Foreign exchange translation

Foreign operating transactions are translated to Canadian dollars at the average exchange rate for each month. Foreign current assets and liabilities are translated on the basis of year-end exchange rates.
Non-current assets are translated at the exchange rate prevailing at the time of the transaction.
Non-current liabilities are translated

on the basis of year-end exchange rates. Unrealized exchange gains and losses relating to translation are deferred and amortized over the remaining life of the liability.
The Corporation has a foreign exchange hedging policy whereby it has entered into forward contracts based on a percentage of its forecasted United States dollar receipts.

Leases

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the Corporation are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long term obligation to reflect the purchase and financing. Equipment acquired under capital leases is being depreciated on the same basis as described above. Gains or losses resulting from sale-leaseback transactions are deducted from the cost of equipment under capital lease and amortized on the same basis as the asset. Rental payments under operating leases are expensed as incurred.

2. Status of Potash Corporation of Saskatchewan

The Corporation was established by Order-In-Council on February 4, 1975 and continued under the Potash Corporation of Saskatchewan Act, proclaimed on April 1, 1976.

The Corporation's accounts are included in the annual consolidated financial statements of Crown Investments Corporation of Saskatchewan.

3. Income Taxes

By virtue of the fact that the Corporation is wholly owned by the Province of Saskatchewan, neither it not its wholly owned subsidiaries are subject to Federal or Provincial income taxes in Canada. Certain income and assets of its subsidiaries are subject to Federal and State taxes in the United States.

4. Property, Plant and Equipment

	(thousands) 1983	1982
Land	$ 19,465	$ 19,415
Buildings and improvements	128,181	120,044
Machinery and equipment	582,882	579,387
Plant under construction	313,080	247,191
Deferred exploration and development costs	69,907	68,265
Equipment under capital lease	29,517	—
	$1,143,032	$1,034,302
Less: Accumulated depreciation and amortization	153,365	127,240
	$ 989,667	$ 907,062

5. Deferred Charges and Investment

	(thousands) 1983	1982
Deferred charges, net of amortization		
Bond issue costs	$ 7,533	$ 2,954
Systems development and other	712	2,107
Preproduction costs	2,826	3,380
Bredenbury development	15,198	14,853
	26,269	23,294
Investment, at equity	965	965
	$27,234	$24,259

6. Long-Term Debt

	(thousands) 1983	1982
Province of Saskatchewan — Bearer bonds issued and sold by the Province and the proceeds transferred to the Corporation. Matures on January 28, 1984 with interest at 8 3/8% per annum, payable semi-annually.	$ 25,000	$ 50,000
— Bearer bonds issued and sold by the Province and the proceeds transferred to the Corporation. Matures on March 15, 1989 with interest at 16% per annum, payable annually. ($75,000 U.S.)	93,330	92,205

— Bearer bonds issued and sold by the Province and the proceeds transferred to the Corporation. Matures on August 15, 1992 with interest at 15% per annum, payable annually. ($50,000 U.S.)	62,220	61,470
— Bearer bonds issued and sold by the Province and the proceeds transferred to the Corporation. Matures March 15, 1990 with interest at 10.75% per annum, payable semi-annually. ($50,000 U.S.)	62,220	—
— Bearer bonds issued and sold by the Province and the proceeds transferred to the Corporation. Matures December 21, 1988 with interest at 10.75% per annum, payable semi-annually.	80,000	—
Saskatchewan Heritage Fund — Loan capital matures in four equal annual installments on June 30, 1984 to 1987 inclusive with interest at 9.3% per annum, payable semi-annually.	20,000	20,000
— Loan capital matures $5,000 on December 31, 1988 and $8,400 on December 31, 1989 with interest at 13% per annum, payable semi-annually.	13,400	13,400
Webster County, Iowa — Non-negotiable promissory note matures December 1, 1996 with interest at 13% per annum, payable semi-annually. ($3,900 U.S.)	4,853	4,795
City of Portage, Indiana — Non-negotiable promissory note matures in eight equal annual installments on March 1, 1985 to 1992 inclusive with interest at 12.25% per annum, payable quarterly, secured by assets of PCS Sales (Indiana), Inc. ($4,000 U.S.)	4,978	4,917
	$366,001	$246,787
Less amounts due within one year	30,000	25,000
	$336,001	$221,787

Principal payments due on long-term debt for the next five years are as follows:

(thousands)
1984 - $30,000
1985 - $ 5,622
1986 - $ 5,622
1987 - $ 5,622
1988 - $85,662

7. Lease Commitments

The Corporation has long-term lease agreements, the longest of which expires in 1998. Future minimum lease payments under these capital and operating leases will be approximately as follows:

	(thousands) Operating	Capital
Years ending December 31		
1984	$14,095	$ 5,337
1985	10,928	5,337
1986	8,180	5,337
1987	6,974	5,337
1988	6,509	5,337
Subsequent years	9,066	53,363
		80,048
Less — amount representing interest		42,048
Present value of minimum capital lease payments		38,000
Current portion		1,021
Long-term portion		$36,979

8. Interest Expense

	(thousands) 1983	1982
Interest on		
— Long-term debt	$36,914	$24,265
— Short-term debt	8,678	1,752
— Obligations under capital leases	189	—
	45,781	26,017
Less capitalized interest	29,480	19,943
	$16,301	$ 6,074

9. Dividend

During the year, a decision was made that the Corporation transfer a portion of retained earnings to the

Crown Investments Corporation of Saskatchewan. This transfer is recorded as payable at December 31, 1983 and is referred to as a dividend.

10. Research and Development Costs

Research and development costs charged to expense in 1983 amounted to $2,918,000 (1982 — $5,279,000).

11. Contractual Obligations and Commitments

The Corporation is expanding its Lanigan division at an estimated cost of $475,000,000 of which approximately $338,000,000 has been expended to date. The Corporation has previously announced its intention to develop a new mine near Bredenbury, subject to environmental approvals and on-going economic evaluations. No significant development is anticipated on the Bredenbury project in 1984.

PCS Sales is a participant in Canpotex Limited, an offshore marketing company. Should any operating losses be incurred by Canpotex Limited, they will be proportionately shared by its participants. PCS Sales is also a guarantor of the performance by Canpotex Limited for certain railcar leases.

PCS Sales and PCS Mining have guaranteed a mortgage loan not to exceed $4,300,000 for warehousing facilities in Danville, Illinois.

12. Directors and Officers

During the year ended December 31, 1983, twelve (1982 — twelve) persons served on the Corporation's Board of Directors and twenty-two (1982 — twenty-three) as senior officers. The aggregate 1983 remuneration to directors amounted to $52,000 (1982 — $47,000) and the aggregate 1983 remuneration to senior officers was $1,704,000 (1982 — $1,601,000).

13. Related Party Transactions

Included in these consolidated financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to or from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

14. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Board of Directors

Cliff Wright, Saskatoon
Chairman of the Board
Mayor, City of Saskatoon

Honourable Bob Andrew
Minister of Finance,
Province of Saskatchewan
and Minister in Charge of PCS

Josie Black, Regina
Farmer

* **Al Brissette, Delisle**
Retired

\+ **William M. Elliott, Q.C., Regina**
Partner
Law Office, McPherson, Leslie & Tyerman

Donald Flamme, Carievale
Farmer

\+ **Dallas Howe, Saskatoon**
President, BDM Systems Ltd.

* **Brent Logan, Yorkton**
President, Logan Chev-Olds (1981) Ltd.

Barb Marcotte, Regina
Self Employed

Dr. Andy Schmitz, California
Professor, University of California

Earl Silcox, Carlyle
Farmer/Rancher

* \+ **J. Gordon Wicijowski, F.C.A., Regina**
Managing Partner, Clarkson Gordon

* Member of Audit Committee
\+ Member of Compensation Committee

Management

Steve W. Haraplak
President & Chief Executive Officer

William F. Avery
Vice President, Finance and Administration

Keith E. Barton
Vice President, General Counsel and Secretary

Douglas A. Karvonen
Vice President, Corporate Development

Neil A. MacPhedran
Director, Purchasing and Vendor Development

Glen E. Shields
Director of Internal Audit

Potash Corporation of Saskatchewan Mining Limited

Donald G. Matheson
President

James J. Bubnick
Vice President, Industrial Relations and Personnel

Donald J. Irvine
Vice President, Engineering

Alec S. Kocur
Vice President, Group Services

James F. Sadler
Vice President, Operations

Bruce Karras
General Manager, Rocanville Division

Rick Lacroix
General Manager, Cory Division

Floyd Pelian
General Manager, Allan Division

Martin Quick
General Manager, Lanigan Division

Potash Corporation of Saskatchewan Sales Limited

Rolf Holzkaemper
President

Douglas E. Logsdail
Executive Vice President

Sid Blair
Director of Market Development

Jack Ellis
Director of Administration

Orin Grovum
Acting Director of Finance

William Irvine
Director of Transportation — North America

Gene Jones
Director of Sales

The Head Offices for the Potash Corporation of Saskatchewan, PCS Sales and PCS Mining are located at:

Saskatoon Square
410 - 22nd Street East
Saskatoon, Saskatchewan
S7K 5T7
Phone: (306) 664-5530
Telex: 074-2699

PCS Sales Chicago Office:

Sperry-Univac Plaza
Suite #260 -
8600 West Bryn Mawr
Chicago, Illinois
60631
Phone: (312) 399-0140
TWX: (910) 221-2912

PCS Mining Divisions:

PCS Mining Cory Division
P.O. Box 1320
Saskatoon, Saskatchewan
S7K 2N8
Phone: (306) 382-0525
Telex: 074-2682

PCS Mining Rocanville Division
Rocanville, Saskatchewan
S0A 3L0
Phone: (306) 645-2870
Telex: 971-2342

PCS Mining Esterhazy Division
P.O. Box 1060
Esterhazy, Saskatchewan
S0A 0X0
Phone: 745-6601
Telex: 075-87856

PCS Mining Lanigan Division
P.O. Box 3100
Saskatoon, Saskatchewan
S0K 2N0
Phone: (306) 365-2030
Telex: 074-2318

PCS Mining Allan Division
Allan, Saskatchewan
S0K 0C0
Phone: (306) 257-3312
Telex: 074-2634

Potash Corporation of Saskatchewan

POOR

QUALITY

ORIGINAL